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Business

# We sold this trust at a 20pc premium. Now at par value, it's time to buy it again

**Questor**
**Trust Bargains**

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## 3i Infrastructure has been caught up in the storm of rising interest rates but its returns look highly dependable

When we advised readers to sell the 3i Infrastructure trust in May 2019 we did so largely because the premium of 21.2pc looked "unsustainable". Now, with the shares close to par value, it's time for another look.

We never had doubts about the quality of the fund's assets or its management. It invests in companies that provide or maintain essential infrastructure, and therefore possess pricing power, and has an excellent long-term record. Since flotation in 2007 it has made a total return of 13.1pc a year (the FTSE 250, of which it is a member, has managed 7.1pc a year over the same period).

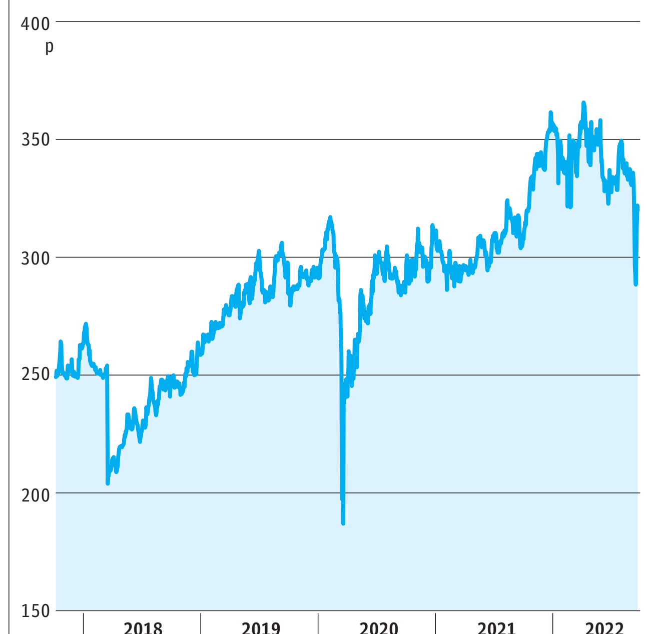
Its share price has risen with great consistency if we overlook the dislocation as the pandemic took hold and, just recently, when the bond market went into a spin. The trust aims to provide shareholders with an annual total return of 8pc to 10pc and it has met or exceeded that target in each of the past eight years. It has also increased its dividend in every year of its existence.

> 3i Infrastructure
> **Buy**
> **Its holdings have pricing power, so returns should rise with inflation**

It runs a concentrated portfolio of 18 holdings and typically has a controlling stake and a seat on the board of the companies it invests in. It is actively engaged in seeking to maximise returns from each one.

When it comes to buying its assets in the first place, it describes itself as a "disciplined investor" and says that "where possible [we] seek opportunities to transact off-market" – in other words, without engaging in competitive auctions against other buyers and running the risk of bidding prices up.

Nothing has changed in its strategy or its execution since we wrote our "sell" advice three years ago. What has changed is the price that shareholders are willing to pay for the returns it generates from its portfolio.




**Key numbers**

- ◆ **Market value: £2.8bn**
- ◆ **Year of listing: 2007**
- ◆ **Discount: 3.5pc premium**
- ◆ **Ave discount in 2022: 14.5pc premium**
- ◆ **Yield (March 2022): 3.3pc**
- ◆ **Most recent year's dividend: 10.45p**
- ◆ **Gearing (March 2022): 7.9pc**
- ◆ **Annual charge (March 2022): 1.41pc**

At first sight the company still seems to be trading at a premium, if only a small one: the current share price of 314p is 3.5pc more than the most recent published net asset value of 303.3p. However, that figure relates to the end of the last financial year in March and the trust said in an update last week that it expected its NAV to be higher when the next figure was published for the half year just ended.

It said: "We expect to report growth in net asset value ahead of the company's target return." That target, as we mentioned, is 8pc to 10pc a year, so for six months we can expect about 5pc. That would make the NAV about 318p – just above the current share price.

The trust also said it was on track to deliver its dividend target, fully covered by earnings, of 11.15p for the full year. This would be a rise of 6.7pc from the year to March and follows a 6.6pc increase last time.

There was also reassuring news on borrowings. 3i Infrastructure typically takes on debt via the companies it invests in rather than directly on to its own balance sheet and following the recent refinancing of one of its holdings it said there were "no material refinancing requirements in the portfolio until 2026" and "over 85pc of our long-term debt facilities are either hedged or fixed rate". At a time when interest rates are highly volatile, you don't want to be exposed to variable-rate debt or face refinancing loans about to mature.

The markets have taken fright over interest rates in recent days, especially following the mini-Budget, and the trust's shares fell precipitously last week when investors demanded higher yields from seemingly all income-producing investments. The shares have already recovered most of those losses and analysts at Numis, the stockbroker, said the market's fears were misplaced. They pointed out that the "discount rate" used by 3i Infrastructure to value future income streams was already more than 10pc a year, which in the trust's view offered "sufficient headroom over relevant gilts".

Their counterparts at JP Morgan Cazenove calculated that the trust should make a "steady-state shareholder return" of about 10pc a year over the long run but added that "there would be upside to this from higher long-term inflation"; the fund's long-term inflation assumption is 2pc. "In our view this remains a very attractive return after the rise in government bond yields and we remain overweight," the broker added.

**Questor says**: buy
**Ticker**: 3IN
**Share price at close**: 314p